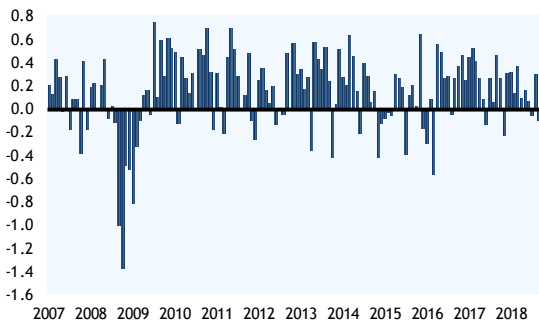


Overview and highlights

Real GDP

% change, month-over-month



Source: Statistics Canada

▲ Canadian GDP was on consensus, falling 0.1% in November. That is the second decline in three months, leaving year-over-year growth at 1.7%.

▲ Employment jumped 66.8k which was up strongly from the 7.8k recorded in December and market expectations of a 5k increase.

▲ Canadian retail sales were slightly weaker than expected in November, falling nearly 1% from the previous month.

▲ Canadian housing starts eased to 208k in January from 214k in December.

▲ Canada's trade deficit widened to \$2.1 billion in November from \$0.9 billion in October.

▲ Canadian inflation unexpectedly rebounded to 2.0% in December.

CURRENT TRENDS UPDATE – CANADA

Update - February 8, 2019

Canadian GDP edged lower in November

Latest available: November

Release date: January 31, 2019

November's GDP release was pretty much as expected, coming in on consensus with a 0.1% decline. Even the details were fairly predictable—manufacturing, wholesale and retail trade slowed (as flagged in earlier reports) and transportation and warehousing activity was down for a second consecutive month as the Canada Post strike continued through nearly all of November. And oil and gas extraction fell due to weather-related disruptions on the East Coast (there were also reports that oil companies began curtailing production amid steep discounts on Western Canadian oil). We think much of this slowing will prove transitory, but over varying timeframes. Weakness in the transport sector will have reversed in December as labour disruptions ended. A slowdown in the energy sector will last a bit longer. Drilling activity was down in December and larger mandated production cuts will have weighed on oil output in January. The Alberta government just announced that production cuts will start to ease back in February and March, which should relieve some of the downward pressure on activity. But that won't be enough to salvage first quarter growth.

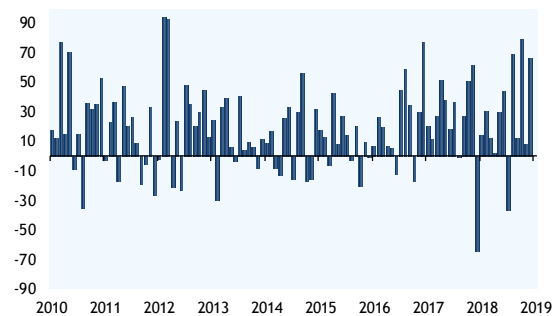
Economy at a glance

	Latest month	% change from	
		Previous month	Year ago
Real GDP	Nov	-0.1	1.7
Industrial production	Nov	-0.3	1.8
Employment	Jan	0.4	1.8
Unemployment rate*	Jan	5.8	5.9
Manufacturing			
Production	Nov	-0.5	1.1
Employment	Jan	-0.3	-1.6
Shipments	Nov	-1.4	2.7
New orders	Nov	-2.9	4.9
Inventories	Nov	-0.6	9.7
Retail sales	Nov	-0.9	0.5
Car sales	Nov	-3.2	-8.0
Housing starts (000s)*	Jan	208.0	217.3
Exports	Nov	-2.9	4.4
Imports	Nov	-0.5	2.4
Trade balance (\$billions)*	Nov	-2.1	-3.1
Consumer prices	Dec	-0.1	2.0

* Levels are shown for the latest period and the same period a year earlier.

Employment

Change in thousands, month-over-month



Source: Statistics Canada

Unemployment rate

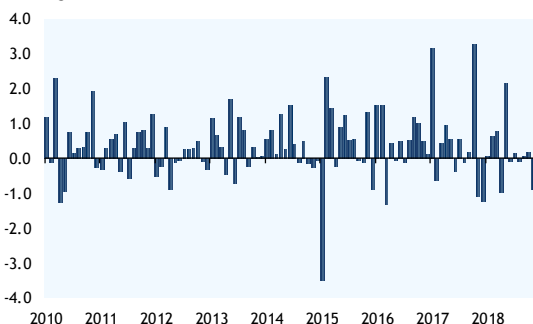
% of labour force



Source: Statistics Canada

Retail sales

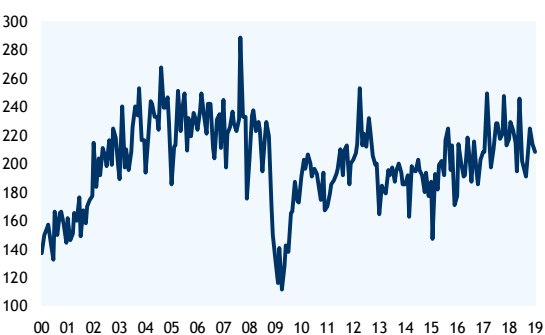
% change, month-over-month



Source: Statistics Canada

Housing starts

Thousands



Source: Canadian Mortgage and Housing Corporation

Canadian January Employment Bounces Back

Latest available: January

Release date: February 8, 2019

Employment jumped 66.8k which was up strongly from the 7.8k recorded in December and market expectations of a 5k increase. The solid increase in employment did not prevent an unexpectedly large 0.2 percentage point jump in the unemployment rate to 5.8% as it was outpaced by an even larger 104k surge in the labour force. Wage growth for permanent employees did rise to 1.8% in January from 1.5% in December though this is still indicative of flat real wages despite the low unemployment rate.

Canadian retail sales fell in November, continuing a soft H2/18

Latest available: November

Release date: January 23, 2019

Canadian retail sales were slightly weaker than expected in November, falling nearly 1% from the previous month. As anticipated, lower nominal sales at auto dealers and gasoline stations were restraining factors (the latter price-related). Outside those two sectors, retail spending edged up 0.2%—just a touch slower than we thought. But overall sales volumes were down in the month and effectively flat relative to a year earlier. The second half of 2018 (at least through November) was a tough stretch for retailers, with consumers cutting back on purchases of durable goods in particular.

Canadian housing starts dipped to 208k in January

Latest available: January

Release date: February 8, 2019

Canadian housing starts eased to 208k in January from 214k in December. That is still a solid level to kick off 2019, down only slightly from the 213k total last year. Single-unit starts continue to drift lower but multi-unit starts have continued to trend higher, and inched up 0.7% in January. New building activity has yet to follow home resales significantly lower — and there appears to be more strong building activity in the pipeline with permit issuance running at a 240k per month annualized rate in Q4 2018. Housing starts typically follow resales with a lag, though.

Drop in exports increased Canada's trade deficit in November

Latest available: November
Release date: January 8, 2019

Lower oil prices accounted for part but not all of the widening in the trade deficit to \$2.1 billion in November from \$0.9 billion in October. Most of a 9.2% drop in energy exports was accounted for by a pull-back in prices, although volumes were also down 1.1% likely in part due to the beginning of price-related cutbacks to Alberta oil production late last year. Export volumes also declined ~ 1 1/2% excluding energy products, though, reflecting relatively broadly-based softness across product type. Machinery and equipment imports increased again — a negative for the trade deficit but a positive sign that businesses in Canada are continuing to invest.

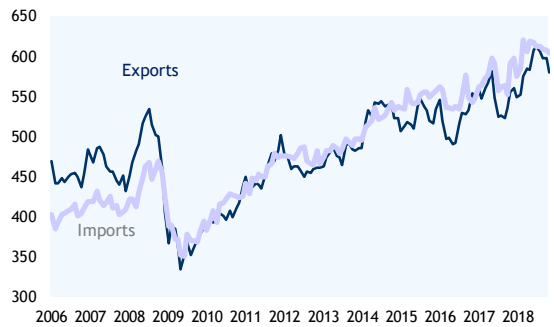
Canadian inflation surprised to the upside in December

Latest available: December
Release date: January 18, 2019

Canadian inflation unexpectedly rebounded to 2.0% in December. Expectations were for the headline rate to hold steady at 1.7%, but a significant jump in airfares (methodology changes have made this component extremely volatile over the last six months) added a surprising 0.3 percentage points. Energy prices were a major factor in inflation spending much of 2018 above the BoC's 2% target. But that dynamic has been flipped on its head thanks to a sharp decline in oil prices toward the end of last year. We expect inflation will be held below 2% for the better part of 2019 as oil prices aren't likely to climb back to the \$70/bbl range seen in May through October 2018.

Merchandise trade

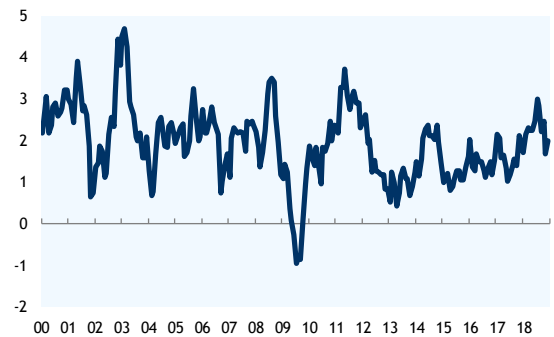
C\$ billions, annualized



Source: Statistics Canada

Consumer price index

% change, year-over-year



Source: Statistics Canada

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